

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2008

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* SHERMAN	County* GLADWIN	Type* TOWNSHIP	MuniCode* 26-1-140
Opinion Date-Use Calendar* 9-3-08	Audit Submitted-Use Calendar* 10-15-08	Fiscal Year End Month* 06	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts Issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues that were collected for another taxing unit timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin)?
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text"/>
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/> ?	18. Are there reported deficiencies?
<input type="checkbox"/> ?	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="checkbox"/> \$ 177,097.82
General Fund Expenditure:	<input type="checkbox"/> \$ 232,880.44
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	<input type="checkbox"/> \$ 74,843.00
Governmental Activities Long-Term Debt (see instructions):	<input type="checkbox"/> \$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* MARK	Last Name* CAMPBELL	Ten Digit License Number* 1101007803		
CPA Street Address* 512 N. LINCOLN, STE 100	City* BAY CITY	State* MI	Zip Code* 48708	Telephone* +1 (989) 894-1040
CPA Firm Name* CAMPBELL, KUSTERER	Unit's Street Address* 4848 W. M-18	Unit's City* GLADWIN	Unit's Zip* 48624	

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-4
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	5
Government-wide Statement of Activities	6
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	7
Reconciliation of Balance Sheet of Governmental Fund to the Statement Net Assets	8
Statement of Revenues, Expenditures, and Changes in Fund Balances	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	10
Notes to Financial Statements	11-15
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	16
Budgetary Comparison Schedule – Garbage Fund	17
Other Supporting Information:	
Current Tax Collection Fund Statement of Changes in Assets and Liabilities	18
Current Tax Collection Fund Statement of Cash Receipts and Disbursements	19

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

September 3, 2008

To the Township Board
Township of Sherman
Gladwin County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Sherman, Gladwin County, Michigan as of and for the year ended June 30, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Sherman's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Sherman, Gladwin County, Michigan as of June 30, 2008, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2008

The Management's Discussion and Analysis report of the Township of Sherman covers the Township's financial performance during the year ended June 30, 2008.

FINANCIAL HIGHLIGHTS

Primary revenue for the Township in the fiscal year 2007-2008 consists of \$70,358 in State Revenue Sharing, \$25,187 in Township operating property taxes, and \$6,488 in Swamp Tax. Sherman Township also received \$6,237 in September 2007 from the State of Michigan as reimbursement for hall entry door and walkway improvements done in 2006 as part of the *Help America Vote Act*. Gladwin Rural Fire District, Garbage, Grass Lake Road Improvements, Lake Lochbrae Weed Control, and Lake Lochbrae Dam Inspection and Maintenance are special assessments. General fund money is invested in certificates of deposit to prepare for future projects such as road improvements. Expenditures increased \$27,700 from 2006-2007 primarily because of the road improvement on Sugar River Road.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. These include the General Fund and the Garbage Fund.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

CONDENSED FINANCIAL INFORMATION

For the year ended June 30, 2008

	<u>Total Governmental Activities 2008</u>
Current Assets	128 856
Capital Assets	<u>42 302</u>
Total Assets	<u>171 158</u>
Current Liabilities	-
Non-current Liabilities	<u>-</u>
Total Liabilities	<u>-</u>
Net Assets:	
Invested in Capital Assets	42 302
Unrestricted	<u>128 856</u>
Total Net Assets	<u><u>171 158</u></u>

	<u>Total Governmental Activities 2008</u>
Program Revenues:	
Fees and Charges for Services	131 705
General Revenues:	
Property Taxes	25 356
Swamp Tax	6 489
State Revenue Sharing	78 842
Interest	4 197
Miscellaneous	<u>9 161</u>
Total Revenues	<u>255 750</u>
Program Expenses:	
Legislative	4 281
General Government	73 914
Public Safety	28 316
Public Works	200 502
Other	<u>5 069</u>
Total Expenses	<u>312 082</u>
Increase (Decrease) in Net Assets Before Transfers	(56 332)
Net Assets, July 1	<u>227 490</u>
Net Assets, June 30	<u><u>171 158</u></u>

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2008

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental Funds: All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund and the Garbage Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Over the course of the year, the Township Board amended the budget six times as events required in that time period. Special assessment expenditures for GRUFD, Grass Lake Road, Lake Lochbrae Weed Control and Lake Lochbrae Dam are determined during the fiscal year. Michigan election laws allow up to four elections per year and election expenses shifted to the Township have increased election costs. Road improvement expenses were \$93,898 (Sugar River Road preparation for blacktop) and the maintenance expense of brining roads was \$10,873.54.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are highways and streets which incurred expenses of \$115,458.69 and fire protection, which incurred expenses of \$28,315.83 in 2008. The fire protection service is totally supported by a Fire special assessment.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township of Sherman invested \$0 in capital assets during the fiscal year ended June 30, 2008.

The Township of Sherman had no long-term debt activity during the fiscal year ended June 30, 2008.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Sherman Township 2008-2009 budget reflects a decrease of \$54,000 (about 25%) from 2007-2008 because of the uncertainty of State Revenue Sharing income and projected reduced interest income.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This report is intended to provide our citizens and property owners with a general overview of the Township's finances and to show accountability of the Township Board for the money it receives. If you have questions or need additional information, please contact the Sherman Township Supervisor.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>128 855 74</u>
Total Current Assets	<u>128 855 74</u>
NONCURRENT ASSETS:	
Capital Assets	91 108 00
Less: Accumulated Depreciation	<u>(48 805 37)</u>
Total Noncurrent Assets	<u>42 302 63</u>
TOTAL ASSETS	<u><u>171 158 37</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
Current liabilities	<u>-</u>
Total Current Liabilities	<u>-</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	42 302 63
Unrestricted	<u>128 855 74</u>
Total Net Assets	<u>171 158 37</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>171 158 37</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2008

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Net (Expense) Revenue and changes in net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	4 281 04	-	(4 281 04)
General government	73 913 93	-	(73 913 93)
Public safety	28 315 83	32 434 22	4 118 39
Public works	200 501 61	99 271 04	(101 230 57)
Other	<u>5 069 38</u>	<u>-</u>	<u>(5 069 38)</u>
Total Governmental Activities	<u>312 081 79</u>	<u>131 705 26</u>	<u>(180 376 53)</u>
General Revenues:			
Property taxes			25 356 47
Swamp tax			6 488 55
State revenue sharing			78 842 27
Interest			4 196 86
Miscellaneous			<u>9 160 50</u>
Total General Revenues			<u>124 044 65</u>
Change in net assets			(56 331 88)
Net assets, beginning of year			<u>227 490 25</u>
Net Assets, End of Year			<u>171 158 37</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2008

	<u>General</u>	<u>Garbage</u>	<u>Total</u>
<u>Assets</u>			
Cash in bank	74 553 76	54 012 74	128 566 50
Due from other funds	<u>289 24</u>	<u>-</u>	<u>289 24</u>
Total Assets	<u><u>74 843 00</u></u>	<u><u>54 012 74</u></u>	<u><u>128 855 74</u></u>
<u>Liabilities and Fund Equity</u>			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	<u>74 843 00</u>	<u>54 012 74</u>	<u>128 855 74</u>
Total fund equity	<u>74 843 00</u>	<u>54 012 74</u>	<u>128 855 74</u>
Total Liabilities and Fund Equity	<u><u>74 843 00</u></u>	<u><u>54 012 74</u></u>	<u><u>128 855 74</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2008

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	128 855 74
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	91 108 00
Accumulated depreciation	<u>(48 805 37)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>171 158 37</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended June 30, 2008

	<u>General</u>	<u>Garbage</u>	<u>Total</u>
Revenues:			
Property taxes	25 356 47	-	25 356 47
Swamp tax	6 488 55	-	6 488 55
State revenue sharing	78 842 27	-	78 842 27
Interest	3 451 77	745 09	4 196 86
Special assessments	53 798 26	77 907 00	131 705 26
Miscellaneous	<u>9 160 50</u>	<u>-</u>	<u>9 160 50</u>
Total revenues	<u>177 097 82</u>	<u>78 652 09</u>	<u>255 749 91</u>
Expenditures:			
Legislative:			
Township Board	4 281 04	-	4 281 04
General government:			
Supervisor	5 770 28	-	5 770 28
Elections	3 006 48	-	3 006 48
Clerk	9 476 50	-	9 476 50
Assessor	18 603 97	-	18 603 97
Board of Review	975 14	-	975 14
Treasurer	12 644 22	-	12 644 22
Building and grounds	3 032 67	-	3 032 67
Dues	641 38	-	641 38
Publishing and supplies	1 213 46	-	1 213 46
Equalization	1 710 00	-	1 710 00
Cemetery	1 296 50	-	1 296 50
Unallocated	12 006 34	-	12 006 34
Public safety:			
Fire protection	28 315 83	-	28 315 83
Public works:			
Highways and streets	115 458 69	-	115 458 69
Sanitation	-	75 664 36	75 664 36
Weeds	9 378 56	-	9 378 56
Other:			
Insurance	2 850 00	-	2 850 00
Pension	<u>2 219 38</u>	<u>-</u>	<u>2 219 38</u>
Total expenditures	<u>232 880 44</u>	<u>75 664 36</u>	<u>308 544 80</u>
Excess (deficiency) of revenues over expenditures	(55 782 62)	2 987 73	(52 794 89)
Fund balance, July 1	<u>130 625 62</u>	<u>51 025 01</u>	<u>181 650 63</u>
Fund Balance, June 30	<u><u>74 843 00</u></u>	<u><u>54 012 74</u></u>	<u><u>128 855 74</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2008

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (52 794 89)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(3 536 99)
Capital Outlay	<u>-</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (56 331 88)

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Sherman, Gladwin County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Sherman. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

This fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2007 tax roll millage rate was .7532 mills, and the taxable value was \$33,492,942.00.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$500.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	10-30 years
Furniture and equipment	3-20 years

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>128,855 74</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	128,780 74
Uninsured and Uncollateralized	<u>-</u>
Total Deposits	<u>128,780 74</u>

The Township of Sherman did not have any investments as of June 30, 2008.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Township manages its exposure to interest rate risk is by participating in financial institution pooled funds and in mutual funds which hold diverse investments that are authorized by law for direct investments.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The investment policy of the Township contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 3 – Deposits and Investments (continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investment, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	Balance 7/1/07	Additions	Deletions	Balance 6/30/08
Land	15 000 00	-	-	15 000 00
Buildings	60 000 00	-	-	60 000 00
Equipment	16 108 00	-	-	16 108 00
Total	91 108 00	-	-	91 108 00
Accumulated Depreciation	(45 268 38)	(3 536 99)	-	(48 805 37)
Net Capital Assets	45 839 62	(3 536 99)	-	42 302 63

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employee's annual salary to the plan. The net pension expense for the fiscal year ended June 30, 2008, was \$2,219.38.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Sherman does not issue building permits. Building permits are issued by the County of Gladwin.

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	26 000 00	26 000 00	25 356 47	(643 53)
Swamp tax	6 400 00	6 400 00	6 488 55	88 55
State revenue sharing	67 000 00	67 000 00	78 842 27	11 842 27
Interest	200 00	200 00	3 451 77	3 251 77
Special assessments	49 000 00	49 000 00	53 798 26	4 798 26
Miscellaneous	<u>10 300 00</u>	<u>10 300 00</u>	<u>9 160 50</u>	<u>(1 139 50)</u>
Total revenues	<u>158 900 00</u>	<u>158 900 00</u>	<u>177 097 82</u>	<u>18 197 82</u>
Expenditures:				
Legislative:				
Township Board	4 320 00	4 320 00	4 281 04	(38 96)
General government:				
Supervisor	6 670 28	6 670 28	5 770 28	(900 00)
Elections	4 900 00	4 900 00	3 006 48	(1 893 52)
Clerk	10 377 76	10 377 76	9 476 50	(901 26)
Assessor	20 800 00	20 800 00	18 603 97	(2 196 03)
Board of Review	1 250 00	1 250 00	975 14	(274 86)
Treasurer	13 932 50	13 932 50	12 644 22	(1 288 28)
Building and grounds	6 900 00	5 160 05	3 032 67	(2 127 38)
Dues	1 020 00	1 020 00	641 38	(378 62)
Publishing and supplies	1 500 00	1 500 00	1 213 46	(286 54)
Equalization	3 000 00	3 000 00	1 710 00	(1 290 00)
Cemetery	2 800 00	2 300 00	1 296 50	(1 003 50)
Unallocated	26 100 00	28 100 00	12 006 34	(16 093 66)
Public safety:				
Fire protection	30 000 00	30 000 00	28 315 83	(1 684 17)
Public works:				
Highways and streets	105 634 19	116 770 01	115 458 69	(1 311 32)
Weeds	9 000 00	9 378 56	9 378 56	-
Other:				
Insurance	3 700 00	3 700 00	2 850 00	(850 00)
Pension	4 500 00	4 500 00	2 219 38	(2 280 62)
Contingency	10 000 00	1 103 53	-	(1 103 53)
Capital outlay	<u>1 000 00</u>	<u>1 000 00</u>	<u>-</u>	<u>(1 000 00)</u>
Total expenditures	<u>267 404 73</u>	<u>269 782 69</u>	<u>232 880 44</u>	<u>(36 902 25)</u>
Excess (deficiency) of revenues over expenditures	(108 504 73)	(110 882 69)	(55 782 62)	55 100 07
Fund balance, July 1	<u>108 504 73</u>	<u>110 882 69</u>	<u>130 625 62</u>	<u>19 742 93</u>
Fund Balance, June 30	<u>-</u>	<u>-</u>	<u>74 843 00</u>	<u>74 843 00</u>

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

BUDGETARY COMPARISON SCHEDULE – GARBAGE FUND
Year ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Interest	75 00	75 00	745 09	670 09
Special assessments	<u>70 000 00</u>	<u>70 000 00</u>	<u>77 907 00</u>	<u>7 907 00</u>
Total revenues	<u>70 075 00</u>	<u>70 075 00</u>	<u>78 652 09</u>	<u>8 577 09</u>
Expenditures:				
Public works:				
Sanitation	<u>95 500 00</u>	<u>95 500 00</u>	<u>75 664 36</u>	<u>(19 835 64)</u>
Total expenditures	<u>95 500 00</u>	<u>95 500 00</u>	<u>75 664 36</u>	<u>(19 835 64)</u>
Excess (deficiency) of revenues over expenditures	(25 425 00)	(25 425 00)	2 987 73	28 412 73
Fund balance, July 1	<u>50 907 05</u>	<u>50 907 05</u>	<u>51 025 01</u>	<u>117 96</u>
Fund Balance, June 30	<u><u>25 482 05</u></u>	<u><u>25 482 05</u></u>	<u><u>54 012 74</u></u>	<u><u>28 530 69</u></u>

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended June 30, 2008

	<u>Balance</u> <u>7/1/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/08</u>
<u>Asset</u>				
Cash in bank	283 70	1 008 792 67	1 008 787 13	289 24
Total Assets	<u>283 70</u>	<u>1 008 792 67</u>	<u>1 008 787 13</u>	<u>289 24</u>
<u>Liabilities</u>				
Due to other funds	283 70	134 370 53	134 364 99	289 24
Due to other units	-	874 422 14	874 422 14	-
Total Liabilities	<u>283 70</u>	<u>1 008 792 67</u>	<u>1 008 787 13</u>	<u>289 24</u>

TOWNSHIP OF SHERMAN
Gladwin County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended June 30, 2008

Cash on hand and in bank – beginning of year	<u>283 70</u>
Cash receipts:	
Property taxes	1 008 621 30
Interest earned	<u>171 37</u>
Total cash receipts	<u>1 008 792 67</u>
Total beginning balance and cash receipts	<u>1 009 076 37</u>
Cash disbursements:	
Township General Fund	71 142 99
Township Garbage Fund	63 222 00
Gladwin County	470 624 89
Mid-Michigan Community College	36 199 73
Clare-Gladwin Intermediate School District	60 336 24
Gladwin Community Schools	140 369 32
Harrison Community Schools	161 619 63
Refunds	<u>5 272 33</u>
Total cash disbursements	<u>1 008 787 13</u>
Cash on Hand and in Bank – End of Year	<u><u>289 24</u></u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

September 3, 2008

To the Township Board
Township of Sherman
Gladwin County, Michigan

We have audited the financial statements of the Township of Sherman for the year ended June 30, 2008. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Sherman in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Sherman
Gladwin County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

The Township's system of internal control is affected by the size of staff that it can employ.

The ultimate accounting system would include enough employees to completely segregate all aspects of each transaction. Different departments or individuals would handle: transaction authorization, transaction execution, asset handling, recording of transactions, review of transactions and subsequent control of assets.

The Township cannot enact a complete segregation of all aspects of each transaction due to the nature of local units of government. The "cost to benefit" relationship also would not justify a complete segregation of all duties.

We recommend that the Township Board Members understand these circumstances when performing their oversight responsibilities.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated June 30, 2008.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants